without regard to rates. In the week to Nov. 5, M1-B rose by $1.4 billion, which money market economists note brings the average annual rate of growth over the past four weeks to 14 percent, more than twice Volcker's target of 6-7 percent.

Asked if he would continue to reach for his target at the congressional hearings, Volcker stated that he intends to "lean against the monetary aggregates quite hard." If so, U.S. interest rates can only be headed up.

Endorsements

Nevertheless, the leading Friedman followers seeking to control the Reagan administration continue their endorsements of Volcker. "Nobody considers Paul Volcker the enemy," William Simon told the *Wall Street Journal* last week, and urged the Fed chairman to "take even stronger action" than he has so far to continue to drive up interest rates.

Paul McCracken, head of the Reagan Transition Team Task Force on Inflation, also endorsed Volcker in a *Wall Street Journal* op-ed Nov. 13, saying that low interest rates are the cause of inflation. "No concern about the plight of auto dealers or of those wanting to buy or build homes" can be allowed to deter the Fed chairman from his course, McCracken wrote.

"The implications of this Simonesque austerity being so close to the [Reagan] throne may have contributed to the vaporization of the U.S. bond market" soon after Simon's statement, commented Jude Wanniski, a prominent anti-Friedman "supply-side" Reagan economist. "Is Mr. Reagan being Thatcherized?"

The fight for Ronald Reagan's economic soul is not over. It is true that the 11 advisers present at Reagan's Los Angeles economic summit this week were almost entirely members of the Friedman faction, led by George Shultz, William Simon, Paul McCracken, Arthur Burns, Alan Greenspan, and Friedman himself. Other Friedman partisans present included Walter Wriston, the self-avowed "monetarist" chairman of New York's Citibank, and radical libertarian economist Murray Weidenbaum, who works closely with Friedman.

As the comments of Mr. Wanniski, a former *Wall Street Journal* editor, emphasized, however, there is a group of younger Republican economists dedicated to economic growth who deplore Mr. Friedman's influence and aim to take control over Reagan economic policy themselves. These "supply-siders," as they call themselves, in reference to supplying tax credits to stimulate production, are led by New York Congressman Jack Kemp, who also joined the Los Angeles summit. Mr. Kemp refers to Mrs. Thatcher's policy as "root-canal economics." "The fight is far from over," he told *EIR* when asked whose policy would ultimately prevail.

II. CAREER RECORDS

What Friedman did to Nixon

Most of Ronald Reagan's first-string team of economic advisers played star roles in the Nixon administration's economic disasters, by following the same policy prescriptions that they are currently offering the new administration.

Although he had no official role in Nixon's cabinet, Milton Friedman, still on the Reagan advisory team, was the pivot of Nixon's economics. Advising Nixon were Friedman protégé George Shultz, then Office of Management and Budget Chairman and fresh from the University of Chicago, and Arthur Burns, Friedman's old sponsor from undergraduate school and the National Bureau of Economic Research.

Friedman's intemperate statements concerning the advisability of winding down Social Security and all but eliminating trade unions had been a major factor in Barry Goldwater's 1964 defeat.

This makes even more astonishing Richard Nixon's decision to make Friedman his unofficial economic adviser in 1969.

Nixon, however, had been a wartime pal of Friedman's at the Office of Price Stability at Treasury, and learned his economics at the White House at Arthur Burns's knee. Burns now moved back to the White House from Columbia as Counselor to the President. The next year, Burns replaced the aging William McChesney Martin as Chairman of the Federal Reserve's Board of Governors.

Put to the test

During the first half of 1969, the Federal Reserve held the rate of money-supply growth to 4.4 percent per year, right in the middle of Friedman's recommended range of 3 to 5 percent.

Prices rose by an annual rate of 5.8 percent, faster than they had during what Nixon considered a period

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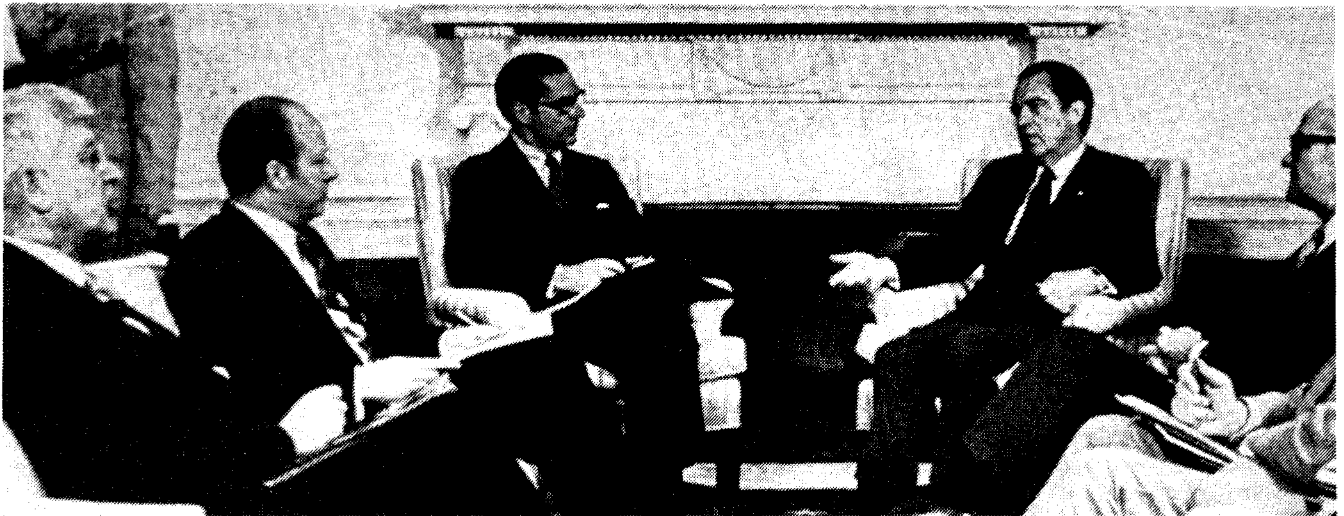

President Nixon meeting with economic advisers to discuss federal expenditures. He learned the hard way about Milton Friedman's advice.

of monetary laxity under Lyndon Johnson, when they had risen by 4.6 percent per year. This did not upset Friedman, who believed that monetary policy operated with a six-month lag. He wrote, however, in August 1969, "If the rate of price rise has not begun to abate by the fourth quarter of this year, it will be time to ask us for an explanation."

But the rate of price inflation did not abate. It continued at 5.8 percent per year through the second half of 1969, and showed no signs of improvement.

Friedman prescribed more of the same medicine, and the Federal Reserve under Nixon's imprimatur obeyed. Monetary growth stopped dead in the half-year from June 1969 to December 1969, and the economy collapsed. Industrial production fell starting in the summer, and unemployment rose from 3.5 percent in 1969 to 5 percent in May 1970.

Despite the deterioration of economic conditions, inflation did not fall. During the first half of 1970, inflation was *higher* than it had been the previous year. Leonard Silk of the *New York Times* economics staff summed up, "Interest rates had climbed to levels not seen in a hundred years, with devastating effects on housing. The federal budget was dropping into deficit, aggravating pressures on money markets. The stock market went into the worst decline it had experienced since the Great Depression."

The road to August 1971

Friedman nearly brought the American economy through a repetition of the 1929 crash, by identical methods.

In May the Penn Central Railroad went bankrupt, leaving hundreds of millions of dollars in short-term commercial paper outstanding. The entire structure of American short-term credit, which dependent on tens of billions of dollars in short-term promissory notes secured only by the faith of the borrower, was in danger. Bankers sat in their offices deciding whether or not to panic, and Arthur Burns made a series of frantic phone calls to New York and Chicago promising that the Fed would provide as much money as needed as soon as they needed it.

The great reversal

From dead zero, the rate of money-supply growth jumped to 13 percent. Penn Central did not lead to a general panic in the American credit markets. However, the sudden lurch from monetary strangulation to a postwar extreme in monetary laxity sent the American dollar skidding down towards the great debacle of August 1971. The first big dollar crisis of the Nixon administration broke out almost as soon as Burns opened the floodgates in May 1970.

Nixon was stupid, but not that stupid. On the next moonless night he buried Milton Friedman's reputation in the White House back lawn. Immediately after followed Nixon's great recantation: "We are all Keynesians now," meaning that "We are no longer Friedmanites!" That didn't get either the White House or the United States out of the hole that a year of Friedman's medicine had put it in.

By August 15, 1971, Nixon caved in to the demands of Rep. Henry Reuss and Paul Volcker, delinked the dollar from gold, and placed the wage-price controls on the American economy that would, within two years, lead to double-digit inflation.

The above account is drawn from The Ugly Truth About Milton Friedman, *by Lyndon H. LaRouche, Jr. and David Goldman (New York: New Benjamin Franklin House).*